



Committee On Finance

Max Baucus, Ranking Member

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For Immediate Release

Wednesday, September 8, 2004

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Baucus Urges Senate Appropriators to Approve IRS Budget Request *Senator Joins Ranking Member of Budget Committee to Close the Tax Gap*

(WASHINGTON, D.C.) Today, U.S. Senator Max Baucus, ranking member of the Senate Finance Committee, joined Senator Kent Conrad, ranking member of the Budget Committee, in sending a letter to the Senate Subcommittee on Transportation, Treasury, and General Government urging the leaders of the committee to adequately fund the Internal Revenue Service (IRS). Adequate funding will help ensure that all taxpayers pay their fair share, the IRS achieves productivity gains, and taxpayer service is improved.

Last July, the Senate Finance Committee held a hearing on the tax gap, which is the difference between the amount of taxes taxpayers owe to the government and the amount of taxes that taxpayers voluntarily pay. The current tax gap is estimated at \$311 billion, of which the IRS estimates only \$55 billion will be collected. During the hearing, witnesses suggested that the widening tax gap was a result of a failure to adequately fund the IRS.

In the letter, Baucus and Conrad encouraged Chairman Richard Shelby and Ranking Member Patty Murray to fully fund the IRS to demonstrate that Congress recognizes and is willing to take a tangible step toward preserving the integrity of our voluntary self-assessment tax system by closing the tax gap.

Full text of the letter to Chairman Shelby and Ranking Member Patty Murray follows:

September 8, 2004

The Honorable Richard C. Shelby
Chairman, Subcommittee on
Transportation, Treasury, and
General Government
133 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Patty Murray
Ranking Member, Subcommittee
on Transportation, Treasury, and
General Government
144 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Shelby and Ranking Member Murray:

On July 21, 2004, the Senate Finance Committee held a hearing on the \$311 billion tax gap. The tax gap is the difference between the amount of taxes that taxpayers owe the government and the amount of taxes that taxpayers voluntarily and timely pay. The Internal

Revenue Service (IRS) estimates that only \$55 billion of the \$311 billion gross tax gap will ever be recouped, in part because the IRS does not currently have the resources to ensure that everyone pays the taxes they owe. Thus, honest taxpayers are unfairly shouldering more of the tax burden.

The Finance Committee's hearing on the tax gap provided recommendations for reducing the tax gap, including legislation to close tax loopholes, shut down the abusive tax shelter industry, and simplify the tax code. Further, the witnesses agreed that ensuring adequate funding for the IRS is necessary to close the tax gap. The need for increased funding was best stated by IRS Commissioner Mark Everson. Specifically, when asked about increasing voluntary compliance in order to close the tax gap, he stated, "We need help on the resources and on the legislation If we can get all those things, we can set very ambitious goals, but we need to know the starting point, first. . . . Get me the money, too." Unfortunately, the House Appropriations Subcommittee on Transportation, Treasury, and Independent Agencies is headed in the wrong direction. On July 15, 2004, the Subcommittee reduced the Administration's budget request for the IRS by \$382 million. With growing deficits, now is not the time to be penny wise and pound foolish.

Our nation finds itself, in a time of fiscal constraint with many worthy but competing federal programs, from homeland security to education, chasing after the same scarce budget dollars. Our fiscal situation is made worse by our failure to collect the taxes that are knowingly owed. As such, it is critical for the IRS to receive appropriations of at least the level of the Administration's budget request, including the additional \$300 million proposed for enforcement. Further, to ensure a real impact on closing the \$311 billion tax gap, the IRS's appropriations should include an increase for unbudgeted mandatory pay raises and other mandatory costs, as well as for productivity savings that are unlikely to occur.

In 2002, former IRS Commissioner Charles Rossotti indicated in his report to the IRS Oversight Board, that there was a gap in what work the IRS should be doing and what the IRS had the capacity to do. Specifically, the IRS does not have the resources to pursue identified tax debtors and non-compliant taxpayers. The numbers provided in his report are staggering: 60 percent of identified tax debts are not pursued, 75 percent of taxpayers who did not file a tax return are not pursued, and 79 percent of identified taxpayers who use abusive devices to evade tax are not pursued. In his opinion, to close this workload gap by the year 2010, IRS needs a steady growth in its total number of staff—in the range of 2 percent per year—and steady productivity growth of 3 percent per year.

The IRS is the main revenue collector for the federal government, collecting annually about \$1.7 trillion in revenues (93 percent of total collections). We believe Commissioner Everson made a valuable observation on April 21, 2004 when he told the House Appropriations Subcommittee that "[o]nce we have hired and trained the new enforcement personnel, as requested in the president's budget, the direct return on investment will approximate six to one. Beyond the incremental revenues associated with the increased audits and collection activity there will also be a favorable spillover effect: other taxpayers will be discouraged from cheating when they observe that those who play fast and loose with the tax code are held accountable.

Behaviors at the margin will change.” According to IRS’s Research Division the spillover (or indirect) return on investment exceeds ten times the direct return on investment. It is common sense that, in times of huge deficits when the country needs significant revenue, we do not short change the tax collector.

In sum, we should provide adequate funding for the IRS, covering unbudgeted mandatory costs and pay raises, as well as increases in IRS funding for enforcement personnel and initiatives. We stand ready to work with you to ensure that Congress does more than just talk about closing the tax gap and instead does something tangible to begin to close the gap.

Sincerely yours,

Max Baucus, Ranking Member, Senate Finance Committee
Kent Conrad, Ranking Member, Senate Budget Committee

cc: The Honorable John Snow
The Honorable Mark W. Everson
Members of the IRS Oversight Board